

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

## **Financial Statements**

### **Northern Lakes Community Mental Health Authority**

*September 30, 2007*



Northern Lakes Community Mental Health Authority  
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September 30, 2007

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## INDEPENDENT AUDITOR'S REPORT

Northern Lakes Community Mental Health Authority  
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Lakes Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2008 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

February 28, 2008

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



Northern Lakes Community Mental Health Authority  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

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## **Introduction**

The management of Northern Lakes Community Mental Health Authority (NLCMHA) presents the following overview and analysis of financial activities during the past fiscal year. NLCMHA was created as a Mental Health Authority effective October 1, 2003 by the joint actions of Boards of Commissioners for the following counties in the State of Michigan: Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon and Wexford. Northern Lakes Community Mental Health Authority replaced the former Great Lakes Community Mental Health and North Central Community Mental Health as a merged organization.

## **Basic Financial Statement**

Two types of financial statement are provided: **Government – wide Statements** and **Fund Statements**.

The **Government-wide** statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of NLCMHA's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an *accrual* basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The **Fund Statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. NLCMHA, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds has a narrower focus than that of the government-wide financial statement in that its focus is on the short-term movement of expendable resources and on the balances of expendable resources available at the end of the fiscal year.

Northern Lakes Community Mental Health Authority  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

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Proprietary funds are internal service funds which are held as a self-insurance against future risk. These funds consist of state of Michigan Medicaid and General Funds and accumulated interest that must be held for future risk or used to provide authorized services to eligible persons.

The accompanying Notes to Financial Statements are an integral part of our financial statements. They give the opportunity to expound on any account, activity, or area that clarification would be beneficial or required. The notes report our policies, compliance, and responsibilities of not only the current audited year but also of responsibilities we have entered into.

### **Comparison with Prior Year**

The average daily cash balance was \$15,988,571 during the fiscal year, which was about 3% over the previous year's average of \$15,579,015. Cash on hand averaged 27% of annual spending which was equal to the previous year. The relatively large cash balance and higher interest rate for the fiscal year led to a higher level of interest income.

Spending on qualified Medicaid services increased by about \$1.1 million or 2.7% between FY2006 and FY2007, however, not all available funds were used allowing for the creation of "Medicaid Savings" of an additional \$1.1 million that was carried forward into FY2008.

As a result of interest earnings, the Internal Service Fund for Medicaid risk is now fully funded at 7.5% of annual Medicaid funding. The \$3,415,912 represents less than one month of Medicaid services. Because of the Medicaid savings, only a small amount of the ISF is projected to be used in 2008. However, in 2009 it will be necessary to commit many of those dollars to continuing the current service level.

NLCMHA has no Internal Service Funds for General Fund services and also did not carry forward any General Funds from the previous fiscal year. NLCMHA did receive a funding transfer from the West Michigan Community Mental Health System for \$300,000. In spite of the addition, NLCMHA provided \$650,000 more in services than funding available.



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On the following page is a three year comparison of financial operations used by the management of NLCMHA to evaluate change.

Both current and non-current assets remained fairly constant between current and prior year. There was a building purchased which was somewhat offset by depreciation in the 6 buildings owned that have not been fully depreciated.

Liabilities were lower with some debt reduction and less owed to employees for payroll. This is a timing change due to payroll payment liability dates at the end of each year

The working Fund Balance of NLCMHA declined by \$300,000 between FY2006 and FY2007. Since 9/30/2005 there has been almost a 30% decline in this amount. More dollars are restricted and designated than in the past creating some of this decline.

Revenues or Funds available increased by over 2.5 million dollars over the prior year. About \$2 million was related to available Medicaid, State general funds were reduced by \$500,000 and the remainder of the increase came from grants and interest income.

Expenditures increased by about 6% from the previous year with the majority being spent on additional services, accomplishing grants, and implementing a legislative wage pass through to direct care workers.

On the surface, Northern Lakes' financial position looks healthy with Revenues exceeding Expenditures for the year. However, the entire difference is equal to the amount that is designated as Medicaid savings for FY2008. Medicaid savings are dollars that can only be used for services to people with Medicaid coverage in the year following the creation of the savings. The reduction of ongoing Medicaid funding in the following 2008 year results in Medicaid savings needed to be used to fund services that would have been eliminated had the savings not been created.

Northern Lakes Community Mental Health Authority  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

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**Chart Comparison With Prior Years**

**Fiscal Year Ended 9/30/2007**

	<b>Northern Lakes CMHA Fiscal Year Ended 9/30/2007</b>	<b>Northern Lakes CMHA Fiscal Year Ended 9/30/2006</b>	<b>Northern Lakes CMHA Fiscal Year Ended 9/30/2005</b>
<b>Assets</b>			
Current Assets	\$14,315,133	\$14,186,737	\$11,574,620
Non Current Assets	\$10,722,404	\$10,642,915	\$5,251,060
Total Assets	\$25,037,537	\$24,829,652	\$16,825,680
<b>Liabilities</b>			
Current Liabilities	\$3,769,142	\$4,602,603	\$4,326,442
Non Current Liabilities	\$6,135,455	\$6,249,035	\$1,122,266
Total Liabilities	\$9,904,597	\$10,851,638	\$5,448,708
<b>Net Assets</b>			
Invested in Capital Assets	\$4,394,344	\$4,110,561	\$4,184,666
Restricted	\$3,415,912	\$2,917,286	\$1,964,509
Designated Funds	\$3,662,443	\$2,989,495	
Operating Fund Balance	\$3,660,241	\$3,960,672	\$5,227,797
Total Net Assets	\$15,132,940	\$13,978,014	\$11,376,972
<b>Revenues</b>			
State Grants	\$9,619,209	\$9,998,562	\$9,464,844
Federal Grants	\$1,868,539	\$1,144,978	\$761,326
County Appropriations	\$1,014,791	\$1,053,393	\$1,069,283
Charges for Services	\$46,929,770	\$44,852,631	\$35,136,776
Interest, Rents, and Other	\$1,089,795	\$813,429	\$589,943
Total Revenues	\$60,522,104	\$57,862,993	\$47,022,172
<b>Expenditures</b>			
Personnel Costs	\$16,262,958	\$15,692,875	\$14,843,214
Operating Expenditures	\$42,187,468	\$39,233,537	\$31,923,612
Debt Service Principal and Interest	\$632,398	\$521,573	\$67,448
Capital Outlays	\$296,972	\$670,756	\$488,488
Total Expenditures	\$59,379,796	\$56,118,741	\$47,322,762
Revenues Over (Under) Expenditures	\$1,142,308	\$1,744,252	(\$300,590)

### **Strength of Financial Position**

Changes in financial position, which help ensure the agency's future ability to provide services were:

1. Undertook a number of changes to reduce overspending on General Fund services. In the 2007 operating year, NLCMHA ended up over-expending "General Fund" revenue by \$650,000 as compared to a \$2.2 million dollar overage that was projected at the beginning of the operating year.
2. Deposited an additional \$900,000 into the under-funded defined benefit pension from the former Great Lakes Community Mental Health Authority.
3. Refined operations to accomplish submitting or reporting services within 30 days of each month in an effort to better assess performance. With that information, there was a development of a subsidiary data set of transactions to allow queries related to funding source usage.
4. Implemented a legislative wage pass through to providers of specialized residential services and community living support services which will assist them in maintaining and recruiting staff.
5. Began the development of a new compliance approach to assist providers in developing good recording of services, service plans and goals.
6. Invested resources in developing new contract models that are scheduled for implementation in FY 2008 and FY 2009.
7. Invested in one additional residential living setting or home to assist consumers with being able to have room and board costs within their financial means.

### **Change in Budget during the Fiscal Year:**

In June of 2007, the Northern Lakes Community Mental Health Authority Board accepted a recommendation to modify its budget by increasing \$1.8 million for Medicaid and grant funds. The vast majority of the increase was used for residential services that were increased to meet consumer demand. Increases were made to personnel lines and contract lines to recognize new grants. Other adjustments were made dealing with inpatient services and to recognize the capitalization of the Traverse City office building.

### **About the Future**

As projected, the State did reduce the amount of Medicaid available to provide services in FY 2008 through a “rebasement process”. As a result, Northern Lakes will have \$1.5 million less in available Medicaid funds to meet service needs than what was projected as a need. The current plan is to maintain services and rely on Medicaid savings and Medicaid ISF to meet shortfalls. While this strategy gives NLCMHA a balanced budget, a more significant problem is that services and spending related to General Fund far exceeds resources. To avoid a major loss in service resources, NLCMHA must accomplish changes in the following areas:

1. Ensuring that all people receiving services that could qualify for Medicaid coverage do qualify for coverage. This requires service providers who are responsible for service plans invest additional time pursuing coverage by assisting guardians and consumers with Medicaid coverage applications.
2. Eliminating services that are not qualified for Medicaid coverage to the eligible Medicaid population such as family respite payments.
3. Reducing the usage of State hospital services.
4. Eliminating spending on areas that cannot be charged as a service such as transportation, foster care, and consumer personal living expenses.
5. Making a determination of what are eligible services for funding when a person has no Medicaid coverage and only General Funds are available to meet their needs. The current approach where all potential consumers are given the same service array cannot be continued.

While the General Fund shortfall is an immediate and potentially devastating problem for NLCMHA to overcome, other changes loom on the horizon that need either awareness or attention to successfully plan and operate services.

Northern Lakes Community Mental Health Authority  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

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The State of Michigan provides a significant portion of the resources used to operate NLCMHA. Whether that is through direct funding or matching federal Medicaid, the financial health of the State and policies of its governing body's impacts on what services NLCMHA can provide.

In recent years, NLCMHA has been successful in being awarded a number of grants. While the grants allow for services that would not be available to the community through normal funding, there are other financial consequences associated with grants. Grants are generally short-lived and once they expire, whatever was accomplished with them either ends or a new source of funding or funding redirection must occur to maintain what was accomplished. Grants seldom allow for administrative costs and Medicaid funding rules require administrative costs be distributed to all operations. As a result, for each grant operated, a percentage of administration is redirected from Medicaid and allocated to the grant. Without a funding source for this administration, commitments of local funds are needed. In addition, many grants require local matching funds to operate.

Service rates and quantities of services delivered will become an increasing focus for funding sources and the management of NLCMHA. In developing rates, NLCMHA must adapt to increasingly more sophisticated cost systems that are capable of determining value and service outcome. Both NLCMHA and its West Michigan affiliate will be evaluated on service cost rates, services per populations, service arrays, and units per person. There already is an expectation that services to Children with Medicaid coverage will show demonstrable increase over the next two years. Reporting services accurately and as authorized in a person's service plan will be even more critical in the future.

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**



NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007 AND 2006

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Current Assets		
Cash and Cash Equivalents	\$7,481,488	\$7,086,138
Investments	5,821,817	5,747,677
Accounts Receivable	227,559	542,585
Due from Other Governmental Units	765,515	791,546
Prepays - Security Deposits	18,753	18,791
Total Current Assets	14,315,133	14,186,737
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	1,277,426	1,141,917
Capital Assets - Depreciable, Net	9,444,978	9,500,998
Total Assets	25,037,537	24,829,652
<b>Liabilities</b>		
Current Liabilities		
Accounts Payable	2,359,937	2,721,188
Due to Other Governmental Units	296,785	1,046,315
Self-Funded Insurance	389,504	-
Accrued Wages and Other Payroll Liabilities	508,170	464,080
Other Liabilities	26,147	31,098
Current Portion of Long-Term Debt	188,600	339,922
Noncurrent Liabilities		
Compensated Absences	1,273,421	1,198,520
Notes Payable	4,862,035	5,050,515
Total Liabilities	9,904,597	10,851,638
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	4,394,344	4,110,561
Restricted for:		
Risk Management	3,415,912	2,917,286
Unrestricted	7,322,684	6,950,167
Total Net Assets	\$15,132,940	\$13,978,014

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2006
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Health & Welfare - Mental Health	<u>\$59,379,795</u>	<u>\$46,712,758</u>	<u>\$13,016,675</u>	\$349,637	\$1,136,145
General Revenues					
Unrestricted Investment Earnings				665,477	557,946
Restricted Investment Earnings				<u>127,194</u>	<u>50,161</u>
Total General Revenues and Contributions				<u>792,671</u>	<u>608,107</u>
Change in Net Assets				1,142,308	1,744,252
Prior Period Adjustments				12,617	856,790
Net Assets, Beginning of Year				<u>13,978,014</u>	<u>11,376,972</u>
Net Assets, End of Year				<u>\$15,132,940</u>	<u>\$13,978,014</u>



## **FUND FINANCIAL STATEMENTS**



NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2007 AND 2006

	General Fund	
	2007	2006
<b>Assets</b>		
Cash And Cash Equivalents	\$7,481,488	\$7,086,138
Cash And Cash Equivalents - Restricted	1,277,426	1,141,917
Investments	5,821,817	5,747,677
Accounts Receivable	227,559	542,585
Due From Other Governmental Units	765,515	791,546
Prepays - Security Deposits	18,753	18,791
Total Assets	<u>\$15,592,559</u>	<u>\$15,328,654</u>
<b>Liabilities</b>		
Accounts Payable	\$2,359,937	\$2,721,188
Due to Other Funds	3,415,912	2,917,286
Due to Other Governmental Units	296,785	1,046,315
Self-Funded Insurance	389,504	-
Accrued Wages and Other Payroll Liabilities	508,170	464,080
Other Liabilities	26,147	31,098
Total Liabilities	<u>6,996,454</u>	<u>7,179,967</u>
<b>Fund Balance</b>		
Reserved for:		
Security Deposits	18,753	18,791
Unreserved:		
Designated	7,598,526	2,989,495
Undesignated	978,825	5,140,401
Total Fund Balance	<u>8,596,105</u>	<u>8,148,687</u>
Total Liabilities and Fund Balance	<u>\$15,592,559</u>	<u>\$15,328,654</u>

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
 RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS  
 TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

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Total fund balance - governmental funds	\$8,596,105
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Add: Capital assets	15,601,356
Deduct: Accumulated depreciation	(6,156,378)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Deduct: Notes payable	(5,050,634)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets:	
Add: Net assets of governmental activities accounted for in the internal service fund.	3,415,912
Some liabilities are not due and payable in the current period, and therefore, are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	(1,273,421)
Net assets of governmental activities	<u><u>\$15,132,940</u></u>

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

Revenues	General Fund	
	2007	2006
State Grants		
Department of Community Health Contract	\$5,912,052	\$6,450,697
Adult Benefit Waiver	654,919	619,753
MI Child	38,899	41,651
Title XX	9,002	9,002
Food Stamps	32,706	32,114
Birchwood	336,034	336,034
Elderly Waiver	2,349,276	2,237,019
Alzheimer's Grant	15,875	16,651
Respite	100,000	100,000
PAS / ARR Grant	146,447	148,777
Suicide Prevention	24,000	-
DCH Block Grants - Other	-	6,864
Total State Grants	9,619,209	9,998,562
Federal Grants		
DCH Block Grants	931,765	363,926
Path Homeless Housing	333,148	225,128
YESS	133,084	109,591
Strong Families / Safe Children	31,201	-
PAS / ARR Grant	439,340	446,333
Total Federal Grants	1,868,539	1,144,978
Contributions - Local Units		
Affiliate Local Contributions	217,012	-
County Appropriations	1,014,791	1,053,393
Total Contributions - Local Units	1,231,803	1,053,393
Charges for Services		
Medicaid	45,690,486	44,066,589
Medicaid - CMW	351,989	278,699
Client and Third Party Pay	670,283	507,343
Total Charges for Services	46,712,758	44,852,631
Interest	665,477	557,946
Other Revenue	297,123	205,322
Total Revenues	60,394,910	\$57,812,832

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

<b>Expenditures</b>	<b>General Fund</b>	
	<b>2007</b>	<b>2006</b>
Health & Welfare - Mental Health		
Personnel Expenditures	\$16,262,958	\$15,692,875
Operating Expenditures	42,187,468	39,233,537
Capital Outlay	505,854	5,786,951
Debt Service - Principal	339,803	215,431
Debt Service - Interest	292,596	306,142
 Total Expenditures	 59,588,678	 61,234,936
 Revenues Over (Under) Expenditures	 806,232	 (3,422,104)
Other Financing Sources (Uses)		
Loan Proceeds	-	5,421,380
Transfers In (Out) - Internal Service Fund	-	(957,675)
 Total Other Financing Sources (Uses)	 -	 4,463,705
 Excess of Revenues and Other Sources Over Expenditures and Other Uses	 806,232	 1,041,601
 Fund Balance, Beginning of Year	 8,148,687	 6,195,237
 Prior Period Adjustments	 (358,814)	 911,849
 Fund Balance, End of Year	 \$8,596,105	 \$8,148,687

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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Net change in fund balances - governmental funds	\$806,232
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: Capital outlay	505,854
Deduct: Depreciation expense	(561,873)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: Interest income	127,194
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: Principal paid on notes payable	339,803
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	
Deduct: Increase in accrual for compensated absences	<u>(74,901)</u>
Change in net assets of governmental activities	<u><u>\$1,142,308</u></u>

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
SEPTEMBER 30, 2007 AND 2006

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		<u>Internal Service Fund</u>	
		<u>2007</u>	<u>2006</u>
<b>Assets</b>			
Due from Other Funds		<u>\$3,415,912</u>	<u>\$2,917,286</u>
<b>Net Assets</b>			
Restricted		<u>\$3,415,912</u>	<u>\$2,917,286</u>

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
<b>Non-Operating Income</b>		
Interest	\$127,194	\$50,161
<b>Operating Transfers In (Out)</b>		
Operating Transfers In (Out) - General Fund	-	957,675
Total Operating Transfers In (Out)	-	957,675
Change in Net Assets	127,194	1,007,836
Net Assets, Beginning of Year	2,917,286	1,964,509
Prior Period Adjustment	371,432	(55,059)
Net Assets, End of Year	<u>\$3,415,912</u>	<u>\$2,917,286</u>



NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Cash Flows from Operating Activities		
Adjustment to Reconcile Net Income		
Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Funds	(\$498,626)	(\$952,777)
Cash Flows from Investing Activities		
Interest Revenue	127,194	50,161
Cash Flows from Capital and Related Financing Activities		
Operating Transfers In (Out) - Prior Periods	371,432	(55,059)
Operating Transfers In	-	1,335,559
Operating Transfers (Out)	-	(377,884)
Total Cash Flows from Capital and Related Financing Activities	371,432	902,616
Net Increase in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents, Beginning of Year	-	-
Cash and Cash Equivalents, End of Year	-	-
Reconciliation of Operating Income to Net Cash Provided		
By (Used For) Operating Activities:		
Operating Income (Loss)	-	-

## **NOTES TO THE FINANCIAL STATEMENTS**



## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Northern Lakes Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

### **Reporting Entity**

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon, and Wexford Counties who meet eligibility and other criteria. As the community mental health services provider for the above mentioned counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority.

Based on the application of the criteria, the Authority does not contain any component units.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

### **Measurement Focus, Basis of Accounting and Basis of Presentation**

Government-Wide Financial Statements - The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

**General Fund** – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

**Internal Service Fund** - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

## **Budgetary Data**

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

## **Cash and Investments**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

## **Receivables and Payables between Funds**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

## **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Due from other governmental entities consist primarily of amounts due from the State of Michigan.

## **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Security deposits consist of amounts paid on behalf of clients for the required initial deposits pursuant to housing rental agreements.

## **Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

## **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Land	Not Depreciated
Vehicles	5
Software	3-5
Equipment and Furnishings	3-10
Buildings & Improvements	10-40

## **Restricted Assets**

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

### **Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

### **Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

### **Net Assets and Fund Balances**

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

#### Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.



### Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

### **MDCH Revenue**

#### *General Fund Revenue*

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon, and Wexford Counties.

#### *Medicaid Revenue*

Also, Northern Lakes Community Mental Health Authority serves as the Pre-Paid Inpatient Health Plan (known as Northwest CMH Affiliation) for the area that includes Crawford, Grand Traverse, Lake, Leelanau, Mason, Missaukee, Oceana, Roscommon, and Wexford Counties. Northwest CMH Affiliation contracts directly with the MDCH to receive Medicaid revenues for Medicaid-qualified services provided to the residents of these counties to administer these Medicaid funds.

### **NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **Budgetary Information**

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All unspent annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

#### **Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated.

During the current year the Authority incurred expenditures in excess of the amounts budgeted as shown on the budgetary comparison schedules in the back of this report as unfavorable variances.

### NOTE 3. DETAIL NOTES

#### Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

<b>Cash and Cash Equivalents</b>	<b>2007</b>	<b>2006</b>
Petty Cash	\$2,014	\$2,114
Checking, Savings, and Money Market Accounts	6,856,474	6,475,024
Money Market Account - Restricted	1,277,426	1,141,917
Certificates of Deposits	623,000	609,000
<b>Totals</b>	<b>\$8,758,914</b>	<b>\$8,228,055</b>

#### Restricted Cash

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30<sup>th</sup>. The Authority holds, in a separate bank account, funds restricted for the payment of the compensated absences as they come due.

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$10,328,011 of the Authority's \$10,528,011 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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**Investments**

At September 30<sup>th</sup>, the investments of the Authority were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Par Value</b>	<b>Maturity</b>	<b>S&amp;P's Rating</b>	<b>%</b>
FLHMC Multi-Coupon Medium Term Note	\$105,001	\$105,000	12/15/2010	AAA	1.8%
FHLMC Medium Term Note	\$13,924	\$14,000	10/10/2017	AAA	0.2%
FLHMC Multi-Coupon Medium Term Note	\$50,001	\$50,000	12/15/2013	AAA	0.9%
FHLMC Medium Term Note	\$98,556	\$100,000	1/15/2018	AAA	1.7%
FLHMC Multi-Coupon Medium Term Note	\$24,971	\$25,000	4/15/2018	AAA	0.4%
FHLMC Series Mtn	\$99,938	\$100,000	12/15/2017	AAA	1.7%
FHLB	\$401,837	\$405,000	2/4/2019	AAA	6.9%
FHLB	\$175,110	\$175,000	1/2/2009	AAA	3.0%
FHLB Multi-Coupon	\$200,312	\$200,000	12/27/2013	AAA	3.4%
FHLB	\$1,150,000	\$1,150,000	2/22/2010	AAA	19.7%
FHLB	\$500,000	\$500,000	4/5/2012	AAA	8.6%
FHLB	\$151,172	\$150,000	7/25/2017	AAA	2.6%
FHLB	\$506,405	\$500,000	8/20/2013	AAA	8.7%
FNMA Multi-Coupon	\$150,047	\$150,000	3/30/2009	AAA	2.6%
FNMA Multi-Coupon	\$104,000	\$104,000	12/8/2010	AAA	1.8%
FNMA Multi-Coupon	\$30,000	\$30,000	5/12/2014	AAA	0.5%
FNMA	\$501,250	\$500,000	9/25/2014	AAA	8.6%
US Treasury Note	\$199,984	\$200,762	8/15/2008	AAA	3.4%
US Treasury Note	\$101,148	\$100,190	1/31/2009	AAA	1.7%
US Treasury Note	\$235,675	\$233,564	1/31/2009	AAA	4.0%
US Treasury Note	\$204,380	\$203,523	2/15/2009	AAA	3.5%
Federal National Meeting Association	\$499,845	\$500,000	2/10/2009	AAA	8.6%
US Treasury Note	\$100,633	\$98,215	10/15/2010	AAA	1.7%
Federal National Meeting Association	\$106,468	\$105,563	2/28/2011	AAA	1.8%
US Treasury Note	\$122,267	\$122,000	8/22/2012	AAA	2.1%
FLHMC Multi-Coupon Medium Term Note	\$105,001	\$105,000	12/15/2010	AAA	1.8%
Total Value	\$5,832,923	\$5,821,817			100%

**Investments**

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. See above for a listing of the Authority's investments.

The Authority's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

**Interest Rate Risk – Investments**

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not

place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Custodial Credit Risk – Investments*

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

*Credit Risk*

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

*Concentration of Credit Risk*

The Authority places no limit on the amount it may invest in any one issuer.

**Accounts Receivable**

Accounts receivable represents amounts due from third party payers, patients, and others.

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

### Due from Other Governmental Units

Due from other governmental units as of September 30<sup>th</sup> consists of the following:

<b>Due From:</b>	<b>2007</b>	<b>2006</b>
State of Michigan – OBRA	\$198,701	\$207,480
State of Michigan – Elderly Waiver	-	39,106
State of Michigan – Child Waiver	74,501	90,435
State of Michigan – Wraparound	24,877	23,772
State of Michigan – Various Other	325,135	134,980
State of Michigan – HSW	5,037	151,937
State of Michigan – Peer Support	130,977	95,262
Wexford & Missaukee Counties - YESS	6,287	48,574
Totals	\$765,515	\$791,546

### Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital Assets</b>				
Land	\$1,560,000	\$52,625	-	\$1,612,625
Building & Improvements	10,560,035	419,143	-	10,979,178
Vehicles	570,581	27,537	-	598,118
Equipment	2,404,887	6,549	-	2,411,435
Total Capital Assets	15,095,503	505,854	-	15,601,356
<b>Accumulated Depreciation</b>				
Building & Improvements	(3,086,318)	(299,960)	-	(3,386,278)
Vehicles	(315,107)	(86,965)	-	(402,072)
Equipment	(2,193,080)	(174,948)	-	(2,368,028)
Total Accum. Depr.	(5,594,505)	(561,873)	-	(6,156,378)
Totals	\$9,500,998	(\$56,020)	-	\$9,444,978

Depreciation expense was charged to Health and Welfare – Mental Health Program.

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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### Due to Other Governmental Units

Due to other governmental units as of September 30<sup>th</sup> consist of the following:

<b>Due To:</b>	<b>2007</b>	<b>2006</b>
State Of Michigan – Inpatient	\$208,785	\$373,374
State of Michigan - QAAP	-	652,357
Other	88,000	20,584
Totals	\$296,785	\$1,046,315

### Self-Funded Insurance

Northern Lakes uses a self-funded approach for most employee health insurance. With self-funded insurance, there are claims received for events that occur months after the event. The balance represents approximately 60 to 90 days worth of self-funded claims in order to properly ensure all claims can be processed or paid.

### Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September and includes employer payroll taxes as follows:

<b>Liability</b>	<b>2007</b>	<b>2006</b>
Wages	\$468,897	\$397,418
FICA	-	28,955
Other	39,273	37,707
Totals	\$508,170	\$464,080

### Other Liabilities

This liability consists primarily of amounts due for the flexible spending accounts for child care and medical expenses.

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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## Leases

Northern Lakes Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. The following is a summary of the more significant leases.

The Authority has entered into various building leases for the purpose of providing residential facilities. The following is a summary of some of the terms of those leases:

<b>Description/Location</b>	<b>Expires On</b>	<b>Monthly Payments</b>
Jones Lake Road, Grayling Twp.	February 15, 2011	\$2,022
Seneca Street, Cadillac	July 14, 2011	2,459
Evergreen, Roscommon	March 9, 2008	1,325
Woodland, Houghton Lake	November 9, 2007	1,350
Pearl Street, Cadillac	March 8, 2009	2,918
Elmwood, Traverse City	September 30, 2009	2,895
East Bay, Traverse City	July 26, 2007	2,919

The following is a schedule of future minimum rental payments required under the above operating leases that have initial or remaining noncancelable lease terms as of the end of the current fiscal year:

<b>Year Ending September 30<sup>th</sup></b>	<b>Minimum Payments</b>
2008	\$134,181
2009	106,019
2010	53,771
2011	34,700

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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## Long-Term Debt

### Group Home Note

On December 4, 2001 the Authority secured a promissory note with Huntington National Bank in the amount of \$180,000 for the purpose of purchasing a group home. The terms of the note call for 59 monthly payments of \$1,178 starting on January 10, 2002 and one last payment estimated at \$151,309 due on December 10, 2006. The interest rate is stated at 4.81%.

### Hall Street Building Capital Lease

On September 24, 1999, the Authority entered into an agreement with the Foundation for Mental Health – Grand Traverse/Leelanau (the Foundation) and a construction contractor for the construction of a new office building; construction was completed in 2001. The Foundation financed the construction via Michigan Strategic Fund Unlimited Obligation Revenue Bonds that were purchased 100% by Huntington National Bank. The bonds are non-recourse to the Foundation and are secured primarily by an assignment of a lease rental payable through a 20 year, non-cancelable lease from the Authority.

On October 1, 2005 the operating lease was converted to a capital lease. Land and buildings were capitalized at their historical cost less accumulated depreciation. The balance due on the bonds was recorded as a loan payable. A prior period adjustment was recorded to reflect the difference between the expenditures recorded (rent) and the expenditures allowed had the lease been originally recorded as a capital lease from the inception of the lease (depreciation and interest).

The capital lease calls for monthly payments of \$40,473, with the final payment due August 1, 2023. The interest rate is stated at 5.59%

The remaining payments, including total interest of \$2,620,716, due for each year on the above loans are as follows:

<b>Fiscal Year Ending September 30<sup>th</sup></b>	<b>Payments</b>
2008	\$481,452
2009	481,452
2010	481,452
2011	481,452
2012-2016	2,407,260
2017-2021	2,407,260
2022-2023	922,783



Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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Compensated Absences

*Vacation Time*

North West Clinical Union Staff - The Authority's policy allows employees to accumulate up to 240 hours of vacation time. Any excess accumulation shall be forfeited. Amounts accumulated are to be paid to an employee and recognized as an expense either when vacations are actually taken or upon termination of employment.

*Paid Time Off*

All Other Staff – The Authority's policy allows full time employees to accumulate paid time off at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum of 75 days are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment. Employees can choose to be compensated for up to 22 days annually. However, accumulated paid time off cannot be reduced below 20 days.

*Personal Leave*

North West Clinical Union Staff - The Authority's policy grants employees 64 hours of personal leave per year. Any balance of unused personal leave hours remaining at the end of the year shall be paid at the employee's prevailing hourly rate. Unused personal leave is paid out upon termination.

Compensated absences liability, including related FICA and retirement, is \$1,273,421 and \$1,198,520 for 2007 and 2006, respectively.

Change in Long-Term Debt

The following is a summary of the changes in the long-term debt for the current year:

<b>Debt</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Group Home Note	\$152,192	-	(\$152,192)	-	-
Compensated Absences	1,198,520	\$74,901	-	\$1,273,421	-
Hall Street Building	5,238,245	-	(187,610)	5,050,635	\$188,600
Totals	\$6,588,957	\$74,901	(\$339,802)	\$6,324,056	\$188,600

Interest expense for the year ended September 30, 2007 was \$292,596.

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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### Prior Period Adjustments

Prior period adjustments shown in this report represents the adjustment to net assets and due to the following:

<b>Adjustment To Net Assets</b>	<b>2007</b>	<b>2006</b>
Medicaid Funds Transferred In - West Michigan CMH	-	\$621,204
DCH Cost Settlement Adjustments – 9/05	-	14,526
Adjustments to Net Capital Assets	-	221,060
Adjustments to MI Choice Waiver	\$24,808	-
Adjustments to Inpatient Costs	(12,191)	-
Total Increase (Decrease) To Net Assets	\$12,617	\$856,790

Prior period adjustments represent the adjustment to fund balance due to the following:

<b>Adjustment To Fund Balance</b>	<b>2007</b>	<b>2006</b>
Medicaid Funds Transferred In - West Michigan CMH	-	\$621,204
DCH Cost Settlement Adjustments – 9/05	-	14,526
Adjustments Related to Capital Outlay	-	221,060
DCH Cost Settlement – 9/05, Internal Service Fund	-	55,059
DCH Cost Settlement – 9/06	(\$371,431)	-
Adjustments to MI Choice Waiver	24,808	-
Adjustments to Inpatient Costs	(12,191)	-
Total Increase (Decrease) To Fund Balance	(\$358,814)	\$911,849

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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### Restrictions, Reserves, and Designations

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

A portion of the fund balance at September 30<sup>th</sup> has been reserved equal to the amount of security deposits, since security deposits do not constitute "available spendable resources." Also, a portion of the fund balance at September 30<sup>th</sup> has been designated for the following:

<b>Designation</b>	<b>2007</b>	<b>2006</b>
Unfunded Portion of Pension Plan	\$1,269,156	\$2,989,495
Compensated Absences	1,270,862	-
2012 Debt Retirement	3,936,083	-
Medicaid Savings	1,122,425	-
Total Designations	\$7,598,526	\$2,989,495

## **NOTE 4. OTHER INFORMATION**

### **Compliance Audits**

The Authority participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

### **Pension Plans**

#### **DEFINED BENEFIT PLAN**

##### *Plan Description*

Northern Lakes Community Mental Health Agency contributes to the Michigan Municipal Employees Retirement System ("MMERS"), an agent multiple employer system administered by the MMERS retirement board that covers some of the employees of the Authority. The Authority's defined benefit plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. There were 61 active members at December 31, 2006, the most recent actuarial valuation for the Authority. The State of Michigan Public Act No. 427 of the Public Acts 1984 is the authority under which benefit provisions and obligations to contribute are established and amended.

Employees with 6-8 or more years of service are entitled to annual pension benefits beginning at normal retirement age (55). There are options for early retirement based on number of years of service. Normal benefits are 2.5% of final average compensation multiplied by total years of credited service.

##### *Funding Policy*

MMERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The funding policy of the Authority is to make contributions equal to the actuarially determined required annual contribution. There are no member contribution requirements. For the year ended September 30, 2007, the Authority contributed \$508,214 based on the monthly contribution requirements provided by the plan actuary. An additional contribution of \$900,000 was also made for the year ended September 30, 2007. As of September 30, 2007, there were 58 active employees.

The contribution requirements of the Authority and its members are established by the Retirement Board of MMERS. The Authority's annual pension cost was equal to the required and actual contributions.

Northern Lakes Community Mental Health Authority  
Notes To The Financial Statements

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Actuarial Valuation Assumptions

Valuation date	December 31, 2006
Actuarial cost method	Closed Group
Amortization method	Level Dollar
Remaining amortization period	22 years
Asset valuation method	Cost
Investment rate of return	8.0%
Projected salary increases	4.5%

GASB 25 Information (as of December 31, 2006)

Retirees and beneficiaries currently receiving benefits	\$8,792,279
Terminated employees (vested former members) not yet receiving benefits	1,490,211
Current employees – Accumulated employee contributions including allocated investment income	62,742
Employer financed	8,933,959
Total actuarial accrued liability	19,279,191
Net assets available for benefits at actuarial value (Market value is \$18,261,977)	18,010,035
Unfunded (Overfunded) actuarial accrued liability	\$1,269,156

GASB 27 Information (as of December 31, 2006)

Fiscal year beginning	January 1, 2008
Annual required contributions (ARC)	\$386,700
Amortization factor used – Underfunded liabilities (22 years)	0.065308
Amortization factor used – Underfunded liabilities (30 year level \$)	0.085453
Amortization factor used – Overfunded liabilities (10 years)	0.119963

Additional information regarding this plan can be obtained by requesting the publicly available financial statements from: Municipal Employees' Retirement System of Michigan, 447 N. Canal St., Lansing, MI 48917

## DEFINED CONTRIBUTION PLAN

The Authority sponsors the “Northern Lakes Mental Health Defined Contribution Plan” created in accordance with the Internal Revenue Code Section 401(a). Participants with 1,000 hours of service during a plan year vest 25% each year for the first four years of service and 100% vested thereafter. The Authority is required to contribute an amount equal to 7.5% of the participant’s compensation.

The plan is administered by the third party trustees and plan provisions and contribution requirements can only be amended by authorization of the Board of Directors. As of September 30, 2007, there were 217 active employees. Total contributions amounted to \$633,032 for the year ended September 30, 2007. Employees do not contribute to the plan.

## Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the Authority’s Self Insured Retention (SIR). The Authority’s SIR is \$250 per vehicle for vehicle physical damage and \$250 per occurrence for property and crime.

The Authority’s coverage limits include \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000 for property and crime.

## Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority’s total revenues.

# **REQUIRED SUPPLEMENTAL INFORMATION**

## **BUDGETARY COMPARISON SCHEDULE**



NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
State Grants				
Department of Community Health Grant	\$6,072,352	\$5,637,326	\$5,912,052	\$274,726
Adult Benefit Waiver	575,000	772,890	654,919	(117,971)
MI Child	41,800	39,289	38,899	(390)
Title XX	9,002	9,002	9,002	-
Food Stamps	31,616	31,616	32,706	1,090
Birchwood	336,034	336,034	336,034	-
Elderly Waiver	2,240,607	2,232,280	2,349,276	116,996
Alzheimers Grant	16,652	16,652	15,875	(777)
Respite	100,000	100,000	100,000	-
PAS / ARR Grant	138,000	138,000	146,447	8,447
Suicide Prevention	-	-	24,000	24,000
Total State Grants	9,561,063	9,313,089	9,619,209	306,120
Federal Grants				
DCH Block Grants	355,763	1,125,045	931,765	(193,280)
Path Homeless Housing	288,309	278,360	333,148	54,788
YESS	173,174	197,174	133,084	(64,090)
Strong Families / Safe Children	-	-	31,201	31,201
PAS / ARR Grant	414,000	414,000	439,340	25,340
Total Federal Grants	1,231,246	2,014,579	1,868,539	(146,040)
Contributions - Local Units				
Affiliate Local Contributions	-	-	217,012	217,012
County Appropriations	1,026,740	1,026,740	1,014,791	(11,949)
Total Contributions - Local Units	1,026,740	1,026,740	1,231,803	205,063
Charges for Services				
Medicaid	43,957,767	45,250,824	45,690,486	439,662
Medicaid - CMW	253,500	314,644	351,989	37,345
Client and Third Party Pay	665,628	647,628	670,283	22,655
Total Charges for Services	44,876,895	46,213,096	46,712,758	499,662
Interest	250,000	500,000	665,477	165,477
Other Revenue	411,292	94,654	297,123	202,469
Total Revenues	57,357,236	59,162,158	60,394,910	1,232,752

The notes to the financial statements are an integral part of this statement.



NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Personnel Costs	\$15,947,496	\$16,334,815	\$16,262,958	\$71,857
Operating Expenditures	41,409,740	42,535,751	42,187,468	348,283
Capital Outlay	-	-	505,854	(505,854)
Debt Service - Principal	-	-	339,803	(339,803)
Debt Service - Interest	-	291,592	292,596	(1,004)
	<u>57,357,236</u>	<u>59,162,158</u>	<u>59,588,678</u>	<u>(426,519)</u>
Total Expenditures				
	-	-	806,232	806,232
Revenues Over (Under) Expenditures				
Fund Balance, Beginning of Year	8,148,687	8,148,687	8,148,687	-
Prior Period Adjustments	-	-	(358,814)	(358,814)
Fund Balance, End of Year	<u>\$8,148,687</u>	<u>\$8,148,687</u>	<u>\$8,596,105</u>	<u>\$447,419</u>

# **OTHER SUPPLEMENTAL INFORMATION**

## **INDIVIDUAL FUND STATEMENTS**



NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF PERSONNEL EXPENDITURES  
FOR THE YEARS ENDING SEPTEMBER 30, 2007 AND 2006

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	General Fund	
	2007	2006
<b>Personnel Expenditures</b>		
Salaries and Wages	\$10,817,117	\$10,239,058
Fringe Benefits	5,445,841	5,453,817
Total Personnel Expenditures	<u>\$16,262,958</u>	<u>\$15,692,875</u>

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF OPERATING EXPENDITURES  
FOR THE YEARS ENDING SEPTEMBER 30, 2007 AND 2006

	General Fund	
	2007	2006
<b>Operating Expenditures</b>		
Professional Fees and Dues	\$789,110	\$475,158
Board Per Diem	17,819	17,955
Printing, Publications, and Advertising	161,023	101,543
Supplies	373,496	310,426
Capital Outlay Under \$5,000	69,171	254,467
Insurance	142,458	149,306
Travel - Staff and Board	262,058	241,665
Utilities	199,682	211,382
Rents	122,512	136,354
Repairs and Maintenance	491,778	428,739
Software / Firmware	33,920	43,872
Contractual Services	38,246,463	35,287,549
Clubhouse Food	19,745	26,337
Client Medical Services and Supplies	191,032	184,259
Vehicle Expense	145,404	123,066
Other	14,511	258,355
Transportation - Other	462,962	472,459
Respite Care	140,613	200,675
Telephone	182,347	209,479
Staff Development	121,363	100,491
Total Operating Expenditures	<u>\$42,187,468</u>	<u>\$39,233,537</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Northern Lakes Community Mental Health Authority  
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Northern Lakes Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated February 28, 2008.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

February 28, 2008

**Northern Lakes Community Mental Health Authority  
Schedule of Findings and Responses**

Finding 2007-1

Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Authority does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



## MANAGEMENT LETTER

Board of Directors  
Northern Lakes Community Mental Health Authority  
Traverse City, Michigan

In planning and performing our audit of the financial statements for Northern Lakes Community Mental Health Authority for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated February 28, 2008 on the financial statements of Northern Lakes Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

February 28, 2008



## **STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS**

We were pleased to see that management has implemented many of the recommendations we included in our previously issued Management Letter. We commend you on your efforts to strengthen internal controls and operating efficiencies.

We have listed below the comments and related recommendations we included in our previously issued Management Letter in which the recommendations we suggested, or an appropriate alternative, have not been fully implemented as of the date of this report.

### **Budget**

#### *Prior Year Comment and Recommendation*

Budget-to-Actual statements are required to be presented in the audit report on the modified accrual basis. Budgets often are prepared to comply with the reporting format requested by the Department of Community Health and may include items that are found in both the full accrual and modified accrual basis (i.e., principal payments, capital outlay, depreciation, compensated absences, gains and losses on disposal of assets, loan proceeds).

We recommend that management review, and modify if necessary, the annual budget to assure that it is prepared on the modified accrual basis for presentation in the annual audit report. This budget should then be adopted by the Board in addition to, if necessary, any other budgets adopted on another basis.

#### *Current Status*

The recommendation we suggested in our previously issued Management Letter has not been implemented as of the date of this report.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### **Credit Card Policy**

Governmental units in Michigan are required to adopt, by Board resolution, a written policy regarding credit card use that is in compliance with Public Act 266 of 1995. Northern Lakes Community Mental Health Authority has a credit card policy in place that meets some, but not all, of the requirements.

We have provided management a copy of Letter No. 2-96 from the Department of Treasury that outlines the requirements of Public Act 266 of 1995. We recommend that the credit card policy be reviewed and amended, as necessary, to include all the requirements as noted in the letter.

### **Grant Revenues**

During our audit we found that, in some cases, grant revenues from different sources were recorded in the same general ledger account. We recommend that all significant revenues be recorded in separate general ledger accounts. Recording revenues in separate accounts will:

- Make it easier to identify revenues by their source (i.e., state, federal, local),
- Make it easier to reconcile revenues to the grant agreements, and
- Make it easier to identify revenues that are subject to additional compliance testing.

### **GASB Statement No. 45**

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2010. However, earlier application is encouraged by the GASB.